

## Message Text

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POUCHED INFO ALL CONSULATES IN CANADA

E.O. 11652: GDS

TAGS: ETRD, CA

SUBJ: US-CANADIAN STUDY OF NORTH AMERICAN AUTO INDUSTRY

1. AUGUST 23, 1976 EMBOFF CARY POSZ MADE INTRODUCTORY CALL ON C. DOUGLAS ARTHUR, SPECIAL ADVISOR ON THE AUTOMOTIVE AGREEMENT, DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE. DURING THEIR ONE-HOUR CONVERSATION, ARTHUR REVIEWED CANADIAN PERSPECTIVE ON AUTO AGREEMENT, EXPLAINED CANADIAN AIMS IN CONDUCTING THEIR SIDE OF BILATERAL STUDY AND REVEALED SOME FINDINGS OF PARTIALLY COMPLETED CANADIAN ANALYSIS.

2. ARTHUR STRESSED THAT U.S. AND CANADIAN APPROACHES TO STUDY DIFFER. HE SEES OUR APPROACH AS AN ANALYSIS OF FORCES EXTERNAL TO AUTO MARKET, SUCH AS POLLUTION CONTROL, SAFETY, ENERGY CONSERVATION AND MATERIALS SHORTAGES IMPACTING ON LONG-TERM FUTURE OF THE INDUSTRY. HE ALSO CHARACTERIZED U.S. SIDE OF THE STUDY AS ESSENTIALLY AN UPDATE OF PREVIOUS STUDIES OF THESE PROBLEMS. ARTHUR CONTRASTED THIS WITH THE GOC APPROACH WHICH, ALTHOUGH IT DEALS WITH CHANGES IN THE INDUSTRY BROUGHT ON BY EXTERNAL FORCES, IS A COMPLETELY NEW STUDY THAT TAKES A SHORTER-TERM VIEW OF THE IMPACT OF THESE FORCES AND, IN ADDITION, FOCUSES ON THE RELATIONSHIP OF CORPORATE STRUCTURE AND BEHAVIOR IN THE

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MARKET TO PERFORMACE OF THE AUTO AGREEMENT. HE

SAID CANADIANS ARE CONCERNED ABOUT CHANGES IN THE STRUCTURE OF THE INDUSTRY, ESPECIALLY INCREASED VERTICAL INTEGRATION, THAT HAVE TENDED TO MAKE IT EVEN MORE OLIGOPOLISTIC, THUS CROWDING OUT CANADIAN PARTICIPATION. THE CANADIANS THEREFORE WANT TO DETERMINE WHETHER THE INDUSTRY, AS IT HAS BEEN OPERATING UNDER TERMS OF THE AGREEMENT, HAS BENEFITED CANADA BY PROVIDING A "FAIR AND EQUITABLE" SHARE OF THE NORTH AMERICAN MARKET.

3. ARTHUR SAID THEIR PRELIMINARY FINDINGS INDICATE THAT THE AUTO COMPANIES "HAVE NOT BEEN GOOD CORPORATE CANADIAN CITIZENS". HE SAID THE MAJOR AUTO COMPANIES HAVE CONFORMED TO THE LETTER OF THE AGREEMENT BUT HAVE OFTEN VIOLATED ITS SPIRIT AND INTENT.

4. ARTHUR NOTED THAT PROSPECTS FOR THE INDEPENDENT PARTS PRODUCERS REPRESENT A PARTICULARLY DIFFICULT PROBLEM BECAUSE DESPITE THE OVERALL ECONOMIC UPTURN, THE CANADIAN STUDY PREDICTS DEMAND IN THE PARTS INDUSTRY WILL CONTINUE TO DECLINE. THIS FINDING CREATES SERIOUS POLITICAL PROBLEMS FOR THE GOC BECAUSE IT COINCIDES EXACTLY WITH THE ASSESSMENT OF THE PARTS INDUSTRY BY PATRICK LAVAL, PRESIDENT OF THE PARTS PRODUCERS ASSOCIATION. THE GOC DOES NOT REPEAT NOT WANT TO GO IN THE DIRECTION LAVAL BELIEVES SUCH A FINDING WOULD DICTATE: PROMPT RENEGOTIATION OF THE AUTO AGREEMENT TO "ASSURE FOR CANADIAN PRODUCERS A FAIR AND EQUITABLE SHARE OF THE DOMESTIC PARTS MARKET." ACCORDING TO ARTHUR, LAVAL CONTENTS THAT A "FAIR AND EQUITABLE SHARE" IS 90 PERCENT.

4. ARTHUR WAS PARTICULARLY CONCERNED ABOUT EMERGING PROBLEM OF COORDINATING ANNOUNCEMENT OF U.S. AND CANADIAN PORTIONS OF THE STUDY'S FINDINGS. GIVEN CERTAIN PROSPECT OF SERIOUS CONTROVERSY OVER DIFFERING U.S. AND CANADIAN APPROACHES AND FINDINGS, ARTHUR BELIEVES IT IS ESSENTIAL TO HAVE A SIMULTANEOUS ANNOUNCEMENT. ARTHUR SAID THAT GOC WOULD NOT FINISH ITS SIDE OF THE STUDY UNTIL LATE 1976 OR PERHAPS EVEN EARLY

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1977 AND THEREFORE HOPES THE U.S. STUDY GROUP, WHICH HE UNDERSTANDS IS WITHIN 3-4 WEEKS OF COMPLETING ITS PORTION, WILL DELAY ANNOUNCEMENT UNTIL THE CANADIANS COMPLETE THEIRS.

5. EMBASSY COMMENT: ARTHUR'S REMARKS SUGGEST THAT GOC STUDY MAY CONTAIN NEGATIVE AND CONTROVERSIAL CONCLUSIONS, PARTICULARLY IN RELATION TO AUTO COMPANIES' BEHAVIOR

VIS-A-VIS CANADA. AT SAME TIME, ARTHUR MADE QUITE CLEAR GOC HAS NO BURNING DESIRE TO UNDERTAKE FULL SCALE RENEGOTIATION OF AUTO AGREEMENT; HE SAID THE GOC WANTS TO SIT DOWN WITH USG AT CONCLUSION OF WORK BY BOTH SIDE FOR AN ORDERLY, QUITE DIALOGUE ON HOW BEST TO DEAL WITH DIFFERENCES HIGHLIGHTED BY THE STUDY.

6. EMBASSY SEES ADVANTAGE IN COORDINATED RELEASE OF U.S. AND CANADIAN STUDY RESULTS, EVEN THOUGH THIS MAY REQUIRE USG TO DELAY RELEASE OF ITS OWN STUDY SUBSTANTIALLY BEYOND COMPLETION DATE. COORDINATED RELEASE WOULD ENABLE US TO HAVE VOICE IN TONE AND CONTENT OF ANNOUNCEMENT AND THUS HOPEFULLY TO KEEP CANADIAN CONCLUSION IN PROPER PERSPECTIVE. EMBASSY REQUESTS INSTRUCTIONS REGARDING USG POSITION ON TIMING OF RELEASE WHICH WE WILL CONVEY TO ARTHUR.  
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